

# Financial Statements

As at 30 June 2004



# Directors' Statement

In the opinion of the directors, the financial statements for the year ended 30 June 2004 give a true and fair view of the matters required by the Finance Minister's Orders 2003-2004 made under the *Commonwealth Authorities and Companies Act 1997*. These statements have been prepared from properly maintained financial records.

A handwritten signature in blue ink, appearing to read 'I Macfarlane', is displayed on a light blue background.

**IJ Macfarlane**

Chairman, Reserve Bank Board  
13 August 2004

**STATEMENT OF FINANCIAL POSITION** As at 30 June 2004  
**Reserve Bank of Australia and Controlled Entities**

	Note	2004 \$M	2003 \$M
<b>ASSETS</b>			
Cash and liquid assets	6, 19	623	839
Australian dollar securities	1(d), 18	18 317	18 933
Foreign exchange	1(c), 18	52 051	44 929
Gold	1(b), 18	1 492	1 350
Property, plant and equipment	1(f), 8	293	287
Loans, advances and other	7	297	255
<b>Total Assets</b>		<b>73 073</b>	<b>66 593</b>
<b>LIABILITIES</b>			
Deposits	1(g), 9	18 126	14 736
Distribution payable to Australian Government	1(i), 3	1 658	2 264
Other	10	8 411	8 007
Australian notes on issue	1(k)	34 022	32 172
<b>Total Liabilities</b>		<b>62 217</b>	<b>57 179</b>
<b>Net Assets</b>		<b>10 856</b>	<b>9 414</b>
<b>Capital and Reserves</b>			
Reserves:			
Unrealised Profits Reserve	1(h), 5	2 837	1 576
Asset revaluation reserves	1(h), 5	1 694	1 513
Reserve Bank Reserve Fund	1(h), 5	6 285	6 285
Capital	5	40	40
<b>Total Capital and Reserves</b>		<b>10 856</b>	<b>9 414</b>

**STATEMENT OF FINANCIAL PERFORMANCE** For the year ended 30 June 2004  
**Reserve Bank of Australia and Controlled Entities**

	Note	2004 \$M	2003 \$M
<b>REVENUES</b>			
Interest revenue	2	1 889	2 175
Net gains on securities and foreign exchange	2	1 073	935
Dividend revenue	2	4	3
Fees and commissions	2	18	20
Other revenue	2	92	37
Total revenue		3 076	3 170
<b>EXPENSES</b>			
Interest expense	2	929	804
General administrative expenses	2	165	170
Other expenses	2	27	23
Total expenses		1 121	997
<b>Net Profit</b>		1 955	2 173
Net revaluation adjustments in asset revaluation reserves	1(h), 5	181	(5)
Net profit plus net revaluation adjustments in asset revaluation reserves		2 136	2 168

**STATEMENT OF DISTRIBUTION** For the year ended 30 June 2004  
**Reserve Bank of Australia and Controlled Entities**

	Note	2004 \$M	2003 \$M
<b>Net Profit</b>		1 955	2 173
Transfer (to)/from Unrealised Profits Reserve	5	(1 261)	222
Transfer from asset revaluation reserves	5	–	2
Earnings available for distribution		694	2 397
<i>Distributed as follows:</i>			
Reserve Bank Reserve Fund	5	–	133
Payable to the Australian Government	3	694	2 264
		694	2 397

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 30 June 2004

## Reserve Bank of Australia and Controlled Entities

### Note 1 SUMMARY OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the *Reserve Bank Act 1959* and the *Commonwealth Authorities and Companies Act 1997*.

The form and content of the financial statements incorporate the requirements of the Finance Minister's Orders (FMOs) 2003-2004. These orders provide that the financial statements of agencies and authorities must comply with accounting standards and accounting interpretations issued by the Australian Accounting Standards Board. As the Reserve Bank of Australia (RBA) is a financial institution, the financial statements have been prepared using AASB1032 – *Specific Disclosures by Financial Institutions*.

The RBA has been granted an exemption from the requirements of the FMOs as detailed in Note 1(m). This exemption relates to a matter of disclosure and presentation which is of a minor nature and is adequately dealt with elsewhere in these financial statements.

The statements are a general purpose financial report prepared in accordance with Australian Accounting Standards. All amounts are expressed in Australian dollars unless another currency is indicated. Current market values are used for the RBA's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for premises, plant and equipment. Revenue and expenses are brought to account on an accrual basis. All revenues, expenses and profits of the RBA are from ordinary activities. Unless otherwise stated, the accounting policies and practices followed in these statements are consistent with those followed in the previous year.

#### (a) Consolidation and associated company

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the Reserve Bank of Australia, and its wholly owned subsidiary, Note Printing Australia Limited. The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed other than in Note 15, Related party and other disclosures. Note Printing Australia Limited was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998, with an initial capital of \$20 000 000.

The assets, liabilities and results of Note Printing Australia Limited have been consolidated with the parent entity accounts in accordance with AASB1024 – *Consolidated Accounts*. All internal transactions and balances have been eliminated on consolidation. Note Printing Australia Limited is subject to income tax; its income tax expense is included in the Statement of Financial Performance as part of Other Expenses.

The RBA accounts for its investment in Securrency Pty Ltd in accordance with AASB1016 – *Accounting for Investments in Associates*. The carrying amount of the RBA's investment in Securrency Pty Ltd is reviewed annually to ensure that it is not in excess of its recoverable amount. The RBA's investment in Securrency Pty Ltd is included in Note 7.

## **(b) Gold**

Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3pm fix in the London gold market on the last business day of June. The RBA lends gold to financial institutions participating in the gold market. Gold loans are secured to 110 per cent of their market value by Australian dollar denominated collateral security. Interest on gold loans is accounted for on a standard accrual basis.

## **(c) Foreign exchange**

Foreign exchange holdings are invested mainly in securities (issued by the governments of the United States, Germany, France and Japan) and bank deposits (with major OECD foreign commercial banks, central banks and international agencies). The RBA engages in interest rate futures and foreign currency swaps.

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at exchange rates ruling on the last business day of June. Realised and unrealised gains or losses on foreign currency are immediately taken to profit, but only realised gains are available for distribution.

### **Foreign government securities**

Foreign government securities comprise coupon and discount securities and repurchase agreements. Coupon securities have biannual or annual interest payments depending on the currency and type of security. Interest earned on discount securities is the difference between the actual purchase cost and the face value of the security. The face value is received at maturity. Interest earned on securities is accrued over the term of the security.

Marketable securities, other than those contracted for sale under repurchase agreements, are reported at market values on the last business day of June; realised and unrealised gains and losses arising from changes in market valuations during the year are taken to profit. Earnings on foreign currency investments are converted to Australian dollars using the exchange rate on the date they are accrued.

### **Foreign currency swaps**

The RBA uses foreign currency swaps to assist daily domestic liquidity management and to manage its balance sheet holdings. A currency swap is the simultaneous purchase and sale of one currency against another currency for specified maturities. The cash flows are the same as borrowing one currency for a certain period, and lending another currency for the same period. The pricing of the swap must therefore reflect the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received.

Foreign exchange holdings contracted for sale beyond 30 June 2004 (including those under swap contracts) have been valued at market exchange rates (refer Note 18).

### **Interest rate futures**

The RBA uses interest rate futures contracts on overseas exchanges to hedge risks on its portfolio of foreign securities. An interest rate futures contract is a contract to buy or sell a specific amount of securities for a specific price on a specific future date.



Interest rate futures are off-balance sheet items. Interest rate futures positions are marked to market on the last business day of June and valuation gains and losses are taken to profit. The RBA did not trade in any other derivative instruments during 2003/04.

#### **(d) Australian dollar securities**

The RBA holds Commonwealth Treasury Fixed Coupon Bonds, Treasury Notes and Treasury Capital Indexed Bonds, and securities issued by the central borrowing authorities of State and Territory Governments. It also holds under repurchase agreements bank bills and certificates of deposit issued by banks licensed in Australia and Australian dollar denominated securities issued by foreign governments, foreign government agencies that have an explicit government guarantee and by certain highly-rated supranational organisations. Realised and unrealised gains or losses on Australian dollar securities are immediately taken to profit, but only realised gains are available for distribution.

Commonwealth Treasury Fixed Coupon Bonds are coupon securities; the interest is payable biannually at the coupon rate. Commonwealth Treasury Notes are discount securities; the interest earned is the difference between the purchase price and the face value on redemption. Treasury Capital Indexed Bonds are coupon securities with the nominal value of the security indexed in line with movements in the Consumer Price Index each quarter until maturity; interest is paid quarterly.

Securities are valued at market prices on the last business day of June except when contracted for sale under repurchase agreements.

#### **(e) Repurchase agreements**

In the course of its financial market operations, the RBA engages in repurchase agreements involving foreign and Australian dollar marketable securities.

Securities sold and contracted for purchase under repurchase agreements are reported on the Statement of Financial Position within the relevant investment portfolio and are valued at market prices; the counterpart obligation to repurchase is included in Other Liabilities. The difference between the sale and purchase price is recognised as interest expense over the term of the agreement.

Securities purchased and contracted for sale under repurchase agreements are reported within the relevant investment portfolio at contract amount. The difference between the purchase and sale price is recognised as interest income over the term of the agreement.

#### **(f) Property, plant and equipment**

Formal valuations of all the RBA's Australian properties are conducted annually; RBA properties overseas are formally valued on a triennial basis. Australian properties are valued by officers of the Australian Valuation Office and overseas properties are valued by local independent valuers. The most recent valuation of overseas properties was at 30 June 2004. These valuations have been incorporated in the accounts. Annual depreciation is based on market values and assessments of useful remaining life.

From 1 July 2003, plant and equipment has been recognised on a fair value basis in accordance with the FMOs. The fair value of plant and equipment at the beginning and end of the reporting period was determined by an independent valuer. Previously, the Bank valued plant and equipment at cost less depreciation. Adjustments arising from the adoption of fair value are reflected in Net Profits (refer Note 2). Annual depreciation will now be based on fair values and the RBA's assessments of useful remaining life. In accordance with the FMOs, the RBA continues to recognise computer software at cost less depreciation.

Details of annual net expenditure, revaluation adjustments and depreciation of property, plant and equipment and computer software are included in Note 8.

### **(g) Deposits**

Deposits include deposits at call and term deposits. Deposit balances are shown at their face value. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued but not paid is included in Other Liabilities. Details of deposits are included in Note 9.

### **(h) Reserves**

Reserves are maintained to cover the broad range of risks to which the RBA is exposed. The Reserve Bank Reserve Fund (RBRF) is a general reserve which provides for events which are contingent and non-foreseeable, mainly those which arise from movements in market values of the RBA's holdings of Australian dollar and foreign securities; the RBRF also provides for potential losses from fraud and other non-insured losses. Amounts set aside for this reserve are determined by the Treasurer after consultation with the Board (refer Note 1(i)).

Asset revaluation reserves reflect the impact of changes in the market values of a number of the RBA's assets, mainly non-traded assets (gold; property; and shares in international financial institutions).

Unrealised gains and losses on foreign exchange and Australian dollar securities are recognised in profit from ordinary activities. Until such gains or losses are realised, they are not available for distribution to the Australian Government; in the interim, the amounts are reflected in the Unrealised Profits Reserve.

### **(i) Profits**

Profits of the RBA are dealt with in terms of Section 30 of the *Reserve Bank Act 1959* as follows:

- (1) Subject to subsection (2), the net profits of the Bank in each year shall be dealt with as follows:
  - (a) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines is to be set aside for contingencies; and
  - (b) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines shall be placed to the credit of the Reserve Bank Reserve Fund; and
  - (c) the remainder shall be paid to the Commonwealth.

(2) If the net profit of the Bank for a year is calculated on a basis that requires the inclusion of unrealised gains on assets during the year, the amount to which subsection (1) applies is to be worked out as follows:

- (a) deduct from the net profit an amount equal to the total of all amounts of unrealised gains included in the net profit; and
- (b) if an asset in respect of which unrealised gains were included in the net profit for a previous year or years is realised during the year – add to the amount remaining after applying paragraph (a) the total amount of those unrealised gains.

### **(j) Provisions**

The RBA maintains provisions for accrued annual leave, calculated on salaries expected to prevail when leave is anticipated to be taken and including associated payroll tax. The RBA also maintains provisions for long service leave and post-employment benefits, in the form of health insurance and housing assistance, and associated fringe benefits tax; these provisions are made on a present value basis in accordance with AASB1028 – *Employee Benefits*. In addition, the RBA makes provision for future workers’ compensation claims in respect of incidents which have occurred before balance date, based on an independent actuarial assessment.

### **(k) Australian notes on issue**

After a note series ceases to be issued, the RBA periodically adjusts its liability for that series, to reflect the likelihood that the remaining notes on issue will not be presented for redemption because they are judged to have been destroyed or are otherwise unavailable for presentation. In 2003/04, the RBA has written down its remaining liability of \$45 million for \$2 notes, which were last issued in 1988; the gain was included in accounting profits (refer Note 2). No amount was written off Australian notes on issue in 2002/03. If the written down notes are subsequently presented, the RBA will reinstate the liability for these notes and charge an expense against profits.

In 2001/02, the RBA began to pay interest on working balances of currency notes held by banks under revised cash distribution arrangements. Interest is paid on balances up to a certain limit.

### **(l) Rounding**

Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

### **(m) Exemptions**

The RBA has been granted an exemption from the following requirement of the FMOs:-

Requirement	Description	Detail of exemption
Appendix A	Form of Statement of Financial Position and Statement of Financial Performance.	The Statement of Financial Position is presented according to AASB1032 and details of revenues and expenses are disclosed in Note 2.

## **(n) Australian Equivalents to International Financial Reporting Standards (AEIFRS)**

Commonwealth authorities reporting under the *Commonwealth Authorities and Companies Act 1997* will have to adopt AEIFRS for reporting periods beginning on or after 1 January 2005. The adoption of AEIFRS will first reflect in the RBA's published financial statements for the year ending 30 June 2006. The RBA has reviewed the AEIFRS and established procedures to monitor and manage how AEIFRS might affect its financial statements. The RBA has also identified the AEIFRS standards which are likely to affect its accounting policies and measurement of items in its financial statements. The RBA has put in place arrangements which will enable it to comply with AEIFRS when they become mandatory. These arrangements include training of staff on AEIFRS and changing systems and internal controls to gather the financial information required by AEIFRS. The RBA has identified a number of areas in which AEIFRS will affect its financial statements, including in the presentation of information about superannuation. The RBA's evaluation of the AEIFRS is continuing and it is possible that other effects will be identified as a consequence of this ongoing process.

	Note	2004 \$M	2003 \$M
<b>Note 2 NET PROFITS</b>			
<i>Interest revenue</i>			
Overseas investments	1(c)	1 024	1 056
Australian dollar securities	1(d)	811	1 062
Overnight settlements		37	37
Gold loans	1(b)	16	19
Loans, advances and other		1	1
		<b>1 889</b>	<b>2 175</b>
<i>Net gains/(losses) on securities and foreign exchange</i>			
Overseas investments	1(c)	(587)	1 036
Australian dollar securities	1(d)	(169)	49
Foreign currency	1(c)	1 829	(150)
		<b>1 073</b>	<b>935</b>
<i>Dividend revenue</i>			
Earnings on shares in Bank for International Settlements		4	3
<i>Fees and commissions</i>			
Banking services fees received		18	20
<i>Other revenue</i>			
Reimbursement by Australian Government for loan management and registry expenses		1	1
Rental of Bank premises		5	4
Sales of note products		22	19
Australian notes on issue written down	1(k)	45	–
Other		19	13
		<b>92</b>	<b>37</b>
<b>Total</b>		<b>3 076</b>	<b>3 170</b>
<b>Less:</b>			
<i>Interest expense</i>			
Deposit liabilities	1(g)	670	513
Currency note holdings of banks	1(k)	136	136
Repurchase agreements	1(e)	123	155
		<b>929</b>	<b>804</b>
<i>General administrative expenses</i>			
Staff costs		102	101
Special redundancy/retirement payments	12	3	3
Depreciation of property	1(f), 8	7	7
Depreciation of plant and equipment	1(f), 8	9	9
Premises and equipment	1(f)	24	25

	Note	2004 \$M	2003 \$M
<b>Note 2</b> (CONTINUED)			
Materials used in note production		9	8
Travel		3	3
Consultants' fees, legal fees and payments to contractors	14	4	8
Other		4	6
		165	170
<i>Other expenses</i>			
Agency business reimbursement		2	3
Subsidiary income tax		–	–
Cash distribution expenses		6	4
Write down of plant and equipment	1(f), 8	2	–
Other		17	16
		27	23
<b>Total</b>		1 121	997
<b>Net Profit</b>		1 955	2 173

Staff costs in 2003/04 include a gain of \$2 million associated with the decline in the balance of the Provision for post-employment benefits (refer Note 10); in 2002/03 Staff Costs included an expense of \$8 million due to an increase in the balance of the provision.

### Note 3 DISTRIBUTION PAYABLE TO AUSTRALIAN GOVERNMENT

Section 30 of the *Reserve Bank Act 1959* requires that the net profits of the Reserve Bank of Australia, less amounts set aside for contingencies or placed in the RBRF as determined by the Treasurer in consultation with the Board, be paid to the Australian Government (refer Note 1(i)).

	2004 \$M	2003 \$M
Opening balance	2 264	1 889
Distribution to Australian Government	(1 300)	(1 889)
Transfer from Statement of Distribution	694	2 264
As at 30 June	1 658	2 264

Of the \$2 264 million payable to the Australian Government out of profits for 2002/03, \$1 300 million was paid in August 2003 and \$964 million was paid in August 2004. The Treasurer has again decided, in consultation with the Board, that earnings available for distribution of \$694 million from 2003/04 will also be distributed in two tranches – \$374 million in August 2004; and \$320 million in the 2005/06 financial year. Accordingly, \$1 338 million of the balance of the distribution payable account as at 30 June 2004 was distributed to the Australian Government in August 2004, and \$320 million will be paid in 2005/06.

	Average balance	Interest	Average annual interest rate
	\$M	\$M	%

#### Note 4 INTEREST REVENUE AND INTEREST EXPENSE

Analysis for the year ended 30 June 2004

##### Interest revenue

Overseas investments	49 107	1 024	2.1
Australian dollar securities	14 513	811	5.6
Loans, advances and other	29	1	3.4
Overnight settlements	760	37	4.8
Gold loans	1 398	16	1.2
	<u>65 807</u>	<u>1 889</u>	<u>2.9</u>

##### Interest expense

Banks' Exchange Settlement balances	779	38	4.8
Deposits from governments	12 274	625	5.1
Deposits from overseas institutions	549	4	0.7
Overseas repurchase agreements	7 800	81	1.0
Domestic repurchase agreements	885	42	4.8
Currency note holdings of banks	2 676	136	5.1
Other deposits	68	3	3.8
	<u>25 031</u>	<u>929</u>	<u>3.7</u>

##### Analysis for the year ended 30 June 2003

Interest revenue total	<u>61 909</u>	<u>2 175</u>	<u>3.5</u>
Interest expense total	<u>21 640</u>	<u>804</u>	<u>3.7</u>

	2004 \$M	2003 \$M
<b>Note 5 RESERVES</b>		
Changes in the RBA's various reserves are shown below.		
<b>Asset revaluation reserves (Note 1(h))</b>		
<b>Gold</b>		
Opening balance	1 222	1 339
Net revaluation adjustments	146	(117)
As at 30 June	1 368	1 222
<b>Shares in international financial institutions (Note 7)</b>		
Opening balance	179	74
Net revaluation adjustments	35	105
As at 30 June	214	179
<b>Bank properties (Notes 1(f), 8)</b>		
Opening balance	112	107
Net revaluation adjustments	–	7
Transfers (to)/from Statement of Distribution	–	(2)
As at 30 June	112	112
<b>Total asset revaluation reserves</b>		
Opening balance	1 513	1 520
Net revaluation adjustments	181	(5)
Transfers (to)/from Statement of Distribution	–	(2)
As at 30 June	1 694	1 513
<b>Unrealised Profits Reserve (Note 1(h))</b>		
Opening balance	1 576	1 798
Net transfers (to)/from Statement of Distribution	1 261	(222)
As at 30 June	2 837	1 576
<b>Reserve Bank Reserve Fund (Note 1(h))</b>		
Opening balance	6 285	6 152
Transfer from Net Profit	–	133
As at 30 June	6 285	6 285
<b>Capital</b>		
Opening and closing balance	40	40
<b>Total capital and reserves</b>		
Opening balance	9 414	9 510
Net profit plus net revaluation adjustments in asset revaluation reserves	2 136	2 168
Transfer to the distribution payable to the Australian Government (Note 3)	(694)	(2 264)
As at 30 June	10 856	9 414



## Note 6 CASH AND LIQUID ASSETS

This includes net amounts of \$617 million owed to the RBA for overnight clearances of financial transactions through the clearing houses; an amount of \$822 million was owed to the RBA at 30 June 2003.

	2004 \$M	2003 \$M
<b>Note 7 LOANS, ADVANCES AND OTHER ASSETS</b>		
Shareholding in Bank for International Settlements	216	181
Officers' Home Advances	23	25
Gold coin	19	17
Investment in Securrency	11	11
Other	28	21
As at 30 June	297	255

The Reserve Bank of Australia has a 50 per cent share in Securrency Pty Ltd, which is incorporated in Victoria, Australia, and whose principal activity is the marketing and manufacture of polymer substrate. The capital of Securrency as at 30 June 2004 was \$36 530 001. The carrying value of the RBA's investment in Securrency as at 30 June 2004 was \$11 484 170 (\$11 164 670 at 30 June 2003). Securrency Pty Ltd has a 31 December balance date.

As at 30 June 2004, other assets included receivables of \$15.1 million, of which \$11.0 million is current (at 30 June 2003 other assets included receivables of \$17.2 million, of which \$15.9 million was current).

	Land \$M	Buildings \$M	Plant and Equipment \$M	Computer Software \$M	Total \$M
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## Note 8 PROPERTY, PLANT AND EQUIPMENT

Gross Book Value as at 30 June 2003	89	136	135	5	365
Accumulated depreciation	–	–	(75)	(3)	(78)
<b>Net Book Value</b>	<b>89</b>	<b>136</b>	<b>60</b>	<b>2</b>	<b>287</b>
Additions	–	9	12	3	24
Depreciation/amortisation expense	–	(7)	(9)	–	(16)
Net Revaluation increment/(decrement)	2	(2)	(2)	–	(2)
Disposals	–	–	–	–	–
Gross Book Value as at 30 June 2004	91	136	132	8	367
Accumulated depreciation	–	–	(71)	(3)	(74)
<b>Net Book Value</b>	<b>91</b>	<b>136</b>	<b>61</b>	<b>5</b>	<b>293</b>

	2004 \$M	2003 \$M
<b>Note 9 DEPOSITS</b>		
Banks' Exchange Settlement balances	1 377	628
Australian Government	16 104	13 784
State Governments	8	13
Foreign governments, foreign institutions and international organisations	573	244
Other depositors	64	67
As at 30 June	<u>18 126</u>	<u>14 736</u>
<b>Note 10 OTHER LIABILITIES</b>		
<b>Provisions (Note 1(j))</b>		
Provision for accrued annual leave	10	8
Provision for long service leave	21	21
Provision for post-employment benefits	53	55
Provision for workers' compensation	1	1
Total employee liabilities as at 30 June	<u>85</u>	<u>85</u>
<b>Other</b>		
Amounts outstanding under repurchase agreements (contract price) (Note 1(e))	7 315	7 833
Interest accrued on deposits	143	55
Other	868	34
As at 30 June	<u>8 326</u>	<u>7 922</u>
Total other liabilities	<u>8 411</u>	<u>8 007</u>

## **Note 11 CONTINGENT LIABILITIES AND OTHER ITEMS NOT INCLUDED IN STATEMENT OF FINANCIAL POSITION**

### **Contingencies**

The RBA has a contingent liability, amounting to \$80.4 million at 30 June 2004 (\$72.6 million at 30 June 2003), in respect of the uncalled portion of its shares held in the Bank for International Settlements.

In the course of providing services to its customers, the RBA provides performance guarantees to third parties in relation to customer activities. Such exposure is not material and has not given rise to losses in the past.

### **Other items**

The RBA has commitments of \$3.2 million at 30 June 2004 (\$8.2 million at 30 June 2003) payable within one year; and commitments of \$0.5 million payable beyond one year (\$0.5 million at 30 June 2003).

The RBA carries its own insurance risks except where external insurance cover is considered to be more cost-effective or required by legislation.

## Note 12 SPECIAL REDUNDANCY/RETIREMENT PAYMENTS

The RBA's expenses in 2003/04 include \$3 081 672 paid or payable to, or on behalf of, staff who accepted special redundancy/retirement offers. Corresponding payments in 2002/03 totalled \$2 966 623. Staff leaving the RBA in 2003/04 under these arrangements numbered 31 (34 in 2002/03).

## Note 13 REMUNERATION OF EXECUTIVES

The number of executives whose remuneration packages, measured in terms of costs to the RBA, fell within the following bands was:

Remuneration band	Number 2004	Number 2003
\$100 000 – \$109 999	1	1
\$110 000 – \$119 999	2	1
\$120 000 – \$129 999	6	6
\$130 000 – \$139 999	7	5
\$140 000 – \$149 999	7	14
\$150 000 – \$159 999	8	13
\$160 000 – \$169 999	6	6
\$170 000 – \$179 999	9	3
\$180 000 – \$189 999	6	2
\$190 000 – \$199 999	2	4
\$200 000 – \$209 999	3	5
\$210 000 – \$219 999	2	
\$220 000 – \$229 999	4	1
\$230 000 – \$239 999	1	2
\$240 000 – \$249 999	2	1
\$260 000 – \$269 999	1	4
\$270 000 – \$279 999		1
\$280 000 – \$289 999	1	
\$290 000 – \$299 999	3	
\$310 000 – \$319 999	2	1
\$320 000 – \$329 999	1	4
\$350 000 – \$359 999	1	
\$360 000 – \$369 999	2	
\$380 000 – \$389 999		1
\$420 000 – \$429 999	1	
\$500 000 – \$509 999		1
\$550 000 – \$559 999	1	

Total remuneration received or due and receivable by these 79 executives amounted to \$15 506 945 (76 executives totalling \$14 140 463 in 2002/03). Remuneration includes cash salary, the RBA's contribution to superannuation, housing assistance, motor vehicles, car parking and health insurance and the fringe benefits tax paid or payable on these benefits. After observing a contributions 'holiday' in recent years, the numbers incorporate the effect of the fact that in 2003/04 the RBA resumed contributions to the staff defined benefit scheme at a rate of 6 per cent of salaries. Remuneration excludes amounts paid to executives posted outside Australia, or seconded to other organisations for the whole or part of the financial year.

Remuneration includes amounts paid to executives who are also members of the Bank Board (refer Note 15).

Termination payments of \$375 568 were made to executives who left the Bank during 2003/04 (\$227 854 in 2002/03); these payments are not reflected in the above table.

#### **Note 14 REMUNERATION OF AUDITOR**

Fees paid or payable to the statutory auditor (Auditor-General of the Commonwealth of Australia) for audit services (excluding GST) totalled \$186 000 in 2003/04 (\$186 000 in 2002/03). They are included in Consultants' fees, legal fees and payments to contractors in Note 2.

#### **Note 15 RELATED PARTY AND OTHER DISCLOSURES**

The Remuneration Tribunal determines the remuneration appropriate to the RBA's non-executive Board members. In 2003/04, payments to executive and non-executive Board members totalled \$1 221 946 (\$1 146 065 in 2002/03). Remuneration includes amounts paid to members of the Bank Board who are also executives (refer Note 13).

The number of directors whose remuneration packages, measured in terms of costs to the RBA, fell within the following bands was:

Remuneration band	Number 2004	Number 2003
\$10 000 – \$19 999		1
\$30 000 – \$39 999	5	4
\$40 000 – \$49 999	1	2
\$380 000 – \$389 999		1
\$420 000 – \$429 999	1	
\$500 000 – \$509 999		1
\$550 000 – \$559 999	1	

At 30 June 2004 and 30 June 2003 there were no loans by the RBA to the Governor, Deputy Governor or non-executive members of the Board.

There were no other related-party transactions with Board members; transactions with director-related entities which occurred in the normal course of the RBA's operations were conducted on terms no more favourable than similar transactions with other employees or customers.

In addition, \$163 222 was paid for the services of non-executive members of the Board of Note Printing Australia Limited who are not employees of the RBA or members of the Bank Board (\$106 401 in 2002/03). The RBA also paid \$158 923 for the services of members of the Payments System Board who are not employees of the RBA (\$154 055 in 2002/03).

## Note 16 SUPERANNUATION FUNDS

Two superannuation funds are operated pursuant to the *Reserve Bank Act 1959*: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. A small part of the assets of the OSF is held by the RBA as nominee for the trustees of the OSF; such assets are not included in these statements. Payment of the funds' current and future benefits is funded by member and Bank contributions and the funds' existing asset bases. The RBA's contributions to the OSF in accordance with the Reserve Bank (Officers' Superannuation) Rules, and to the UK Pension Scheme in accordance with the UK Trust Deed, are included in staff costs in Note 2. Administration and other operational costs (eg salaries, overheads, legal costs and valuation fees) incurred by the RBA for superannuation arrangements are also included in Note 2. There were no other related-party transactions between the RBA and the funds during 2003/04.

At 30 June 2004, the OSF had a surplus of assets over accrued benefits of \$60 million (\$66 million at 30 June 2003). The UK Pension Scheme had a surplus equivalent to \$5 million (\$5 million at 30 June 2003). During 2003/04, the RBA made superannuation contributions of \$6.2 million (\$2.3 million in 2002/03).

Details of the Funds as at 30 June are as follows:

	2004 \$M	2003 \$M
<b>Reserve Bank of Australia Officers' Superannuation Fund</b>		
Accrued benefits	588	542
Net market value of assets	648	608
Surplus	60	66
Vested benefits	539	508
<b>Reserve Bank of Australia UK Pension Scheme</b>		
Accrued benefits	19	19
Net market value of assets	24	24
Surplus	5	5
Vested benefits	21	16
<b>Total Superannuation Funds</b>		
Accrued benefits	607	561
Net market value of assets	672	632
Surplus	65	71
Vested benefits	560	524

Accrued benefits refer to the present value of future benefits payable to current fund members, taking into account assumed future salary increases. Vested benefits are the benefits payable if all current members were to terminate their fund membership at balance date.

## Note 17 SEGMENT REPORTING

The RBA's primary function as a Central Bank is the implementation of monetary policy in one geographical area – Australia. Over 95 per cent of the RBA's assets (and a similar proportion of revenues) are managed for that purpose by the Financial Markets Group. Additional information on the make-up of the RBA's financial assets is provided in Note 18.

## Note 18 FINANCIAL INSTRUMENTS

Australian Accounting Standard AASB1033 – *Presentation and Disclosure of Financial Instruments* requires disclosure of information relating to: both recognised and unrecognised financial instruments; their significance and performance; accounting policy terms and conditions; net fair values and risk information.

A *financial instrument* is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The identifiable financial instruments for the RBA are its Australian dollar securities, its foreign government securities, bank deposits, interest rate futures, foreign currency swap contracts, gold loans, cash and liquid assets, notes on issue and deposit liabilities.

*Net fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, and is usually determined by the quoted market price net of transaction costs. The RBA's recognised financial instruments are carried at current market value which approximates net fair value.

*Financial risk* of financial instruments embodies price risk (currency risk and interest rate risk); credit risk; liquidity risk and cash flow risk. AASB1033 requires disclosure on interest rate risk and credit risk.

The interest rate risk and credit risk tables are based on the RBA's settled portfolio as reported in the RBA's Statement of Financial Position.

### Interest rate risk

*Interest rate risk* is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The following table shows the RBA's Statement of Financial Position restated in compliance with AASB1033.

**Note 18** (CONTINUED)

**Interest rate risk** As at 30 June 2004

	Balance sheet total \$M	Floating interest rate \$M	Repricing Period \$M				Not bearing interest \$M	Weighted average rate %
			0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
<b>Assets</b>								
Gold loans	1 454	–	165	166	1 104	–	19	1.2
Gold holdings	38	–	–	–	–	–	38	n/a
<b>Sub-total</b>	<b>1 492</b>							
<b>Foreign exchange</b>								
Securities sold under repurchase agreements	5 635	–	–	–	3 318	2 317	–	3.9
Securities purchased under repurchase agreements	19 283	–	19 283	–	–	–	–	1.3
Deposits and other securities	26 948	655	11 540	4 003	6 169	3 551	1 030	2.1
Accrued interest – foreign exchange	185	–	–	–	–	–	185	n/a
<b>Sub-total</b>	<b>52 051</b>							
<b>Australian dollar securities</b>								
Securities sold under repurchase agreements	1 679	–	–	–	822	857	–	5.1
Securities purchased under repurchase agreements	13 645	–	13 320	325	–	–	–	5.3
Other securities	2 919	–	1 681	176	571	491	–	5.3
Accrued interest – Australian dollar securities	74	–	–	–	–	–	74	n/a
<b>Sub-total</b>	<b>18 317</b>							
Property, plant & equipment	293	–	–	–	–	–	293	n/a
Cash and liquid assets	623	617	–	–	–	–	6	5.0
Loans and advances	23	23	–	–	–	–	–	3.8
Other	274	–	–	–	–	–	274	n/a
<b>Total assets</b>	<b>73 073</b>	<b>1 295</b>	<b>45 989</b>	<b>4 670</b>	<b>11 984</b>	<b>7 216</b>	<b>1 919</b>	<b>2.9</b>
<b>Liabilities</b>								
Australian notes on issue	34 022	2 351	–	–	–	–	31 671	0.3
Deposits	18 126	2 860	14 850	–	–	–	416	5.2
Distribution payable to Australian Government	1 658	–	–	–	–	–	1 658	n/a
Other	8 411	–	8 146	11	–	–	254	2.0
<b>Total liabilities</b>	<b>62 217</b>	<b>5 211</b>	<b>22 996</b>	<b>11</b>	<b>–</b>	<b>–</b>	<b>33 999</b>	<b>2.0</b>
Capital and reserves	10 856							
<b>Total balance sheet</b>	<b>73 073</b>							
<b>Off balance sheet items</b>								
Interest rate futures	1 386	–	–	–	–	1 386	–	n/a

**Note 18** (CONTINUED)**Interest rate risk** As at 30 June 2003

	Balance sheet total \$M	Floating interest rate \$M	Repricing Period \$M				Not bearing interest \$M	Weighted average rate %
			0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Total assets	66 593	1 797	32 440	8 805	14 234	8 188	1 129	2.7
Total liabilities	57 179	4 946	20 033	–	–	–	32 200	1.4
Capital and reserves	9 414							
Total balance sheet	66 593							
Off balance sheet items	72	–	–	–	–	72	–	n/a

Other liabilities includes amounts outstanding under sale repurchase agreements.

All recognised financial instruments are shown at net fair value.

Off-balance sheet items are shown at nominal market value (difference from net fair value is negligible).

All financial instruments are shown at their repricing period which is equivalent to the remaining term to maturity.

Interest rate futures reflect the positions in interest rate contracts traded in foreign futures exchanges to manage interest rate risk on Official Reserve Assets.

**Credit risk**

*Credit risk* in relation to a financial instrument is the risk that a customer, bank or other counterparty will not meet its obligations (or be permitted to meet them) in accordance with agreed terms.

The RBA's maximum exposure to credit risk in relation to each class of recognised financial assets, other than derivatives (off-balance sheet items), is the carrying amount of those assets as indicated in the balance sheet. The RBA's exposures are to highly-rated counterparties and its credit risk is very low.

The RBA's maximum credit risk exposure in relation to off-balance sheet items is:

- 1. Foreign exchange swaps** – As at 30 June 2004 the RBA was under contract to purchase \$9.3 billion of foreign currency and sell \$34.8 billion of foreign currency. As of that date there was an unrealised net loss of \$797 million on these swap positions included in net profit. The credit risk exposure of these contracts is the cost of re-establishing the contract in the market in the event of the failure of the counterparty to fulfil its obligations.
- 2. Interest rate futures** – As at 30 June 2004 the amount of credit risk on interest rate futures contracts was approximately \$1.4 million (\$0.8 million at 30 June 2003). As at 30 June 2004 there was an unrealised gain brought to account on those contracts of \$0.3 million (\$2.7 million unrealised loss at 30 June 2003).



**Note 18** (CONTINUED)

**Concentration of credit risk**

The RBA operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the RBA's investment portfolio (refer Note 1(c)).

**Credit risk**

	Risk rating of security issuer*	Risk rating of counterparties*	% of total assets as at 2004	% of total assets as at 2003
<b>Domestic Government Securities</b>				
Holdings of Commonwealth Government securities	AAA	n/a	2.8	5.1
Holdings of Semi Government securities	AAA	n/a	0.9	0.0
Securities sold under repurchase agreements	AA	n/a	0.4	0.0
	AAA	AAA	1.6	0.0
	AAA	AA	0.7	1.5
	AAA	other	0.0	0.4
Securities held under repurchase agreements	AAA	AA	11.7	18.6
	AAA	other	0.6	1.0
	AA	AA	4.6	1.9
	AA	other	1.0	0.0
	other	other	0.7	0.0
<b>Foreign investments</b>				
Holdings of securities	AAA	n/a	20.4	25.3
	AA	n/a	3.7	8.1
	A	n/a	0.1	0.0
Securities sold under repurchase agreements	AAA	AA	6.2	8.9
	AAA	other	1.6	0.9
Securities held under repurchase agreements	AAA	AA	20.2	14.8
	AAA	other	6.2	0.9
Deposits	n/a	AAA	0.3	0.6
	n/a	AA	12.6	7.8
	n/a	other	0.0	0.1
Other	n/a	AAA/other	0.1	0.0
<b>Gold loans</b>	n/a	AAA	0.1	0.2
	n/a	AA	1.1	1.0
	n/a	other	0.8	0.8
<b>Other</b>			1.6	2.1
			<b>100</b>	<b>100</b>

\* Standard & Poor's equivalent ratings

## Note 19 CASH FLOW STATEMENT

The following cash flow statement appears as a matter of record to meet the requirements of AASB1026 – *Statement of Cash Flows*; in the RBA's view, it does not shed any additional light on the RBA's financial results. For the purpose of this statement, cash includes the notes and coin held at the RBA and overnight settlements system account balances with other banks.

### STATEMENT OF CASH FLOWS For the year ended 30 June

	2004 Inflow/ (outflow) \$M	2003 Inflow/ (outflow) \$M
<b>Cash flows from operating activities</b>		
Interest received on investments	1 767	2 011
Interest received on loans, advances, and on net overnight settlements systems	38	38
Loan management reimbursement	1	1
Banking service fees received	17	23
Rents received	5	4
Net payments for and proceeds from sale of investments	(5 135)	(73)
Interest paid on deposit liabilities	(581)	(492)
Interest paid on currency note holdings of banks	(136)	(136)
Staff costs (including redundancy)	(105)	(94)
Premises and equipment	(24)	(25)
Other	25	(105)
Net cash provided by operating activities	(4 128)	1 152
<b>Cash flows from investment activities</b>		
Net expenditure on property, plant and equipment	(16)	(16)
Net cash used in investing activities	(16)	(16)
<b>Cash flows from financing activities</b>		
Profit payment to the Australian Government	(1 300)	(1 889)
Net movement in deposit liabilities	3 390	744
Net movement in loans and advances	2	2
Net movement in notes on issue	1 850	242
Other	(14)	(2)
Net cash provided by financing activities	3 928	(903)
Net increase/(decrease) in cash	(216)	233
Cash at beginning of financial year	839	606
Cash at end of financial year	623	839

**Note 19** (CONTINUED)

Reconciliation of cash	2004	2003
	\$M	\$M
Cash	6	17
Overnight settlements systems	617	822
	623	839

  

Reconciliation of net cash provided by operating activities to Net Profits in terms of the <i>Reserve Bank Act</i>	2004	2003
	\$M	\$M
Net Profit	1 955	2 173
Increase/(decrease) in interest payable	88	22
Net loss/(gain) on overseas investments	587	(1 036)
Net loss/(gain) on Australian dollar securities	169	(49)
Net loss/(gain) on foreign currency	(1 829)	150
Decrease/(increase) in income accrued on investments	54	48
Depreciation of property	7	7
Depreciation of plant and equipment	9	9
Net payments for and proceeds from sale of investments	(5 135)	(73)
Other	(33)	(99)
Net cash provided by operating activities	(4 128)	1 152



Auditor-General for Australia



## INDEPENDENT AUDIT REPORT

### To the Treasurer

#### Scope

The financial statements comprise:

- Directors' Statement;
- Statements of Financial Position, Financial Performance and Distribution; and
- Notes to and forming part of the Financial Statements

for both the Reserve Bank of Australia (the Bank) and its consolidated entity, for the year ended 30 June 2004.

The members of the Bank's Board are responsible for the preparation and true and fair presentation of the financial report in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with Australian National Audit Office (ANAO) Auditing Standards, which incorporate Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of our procedures, the audit was not designed to provide assurance on internal controls.

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I have performed procedures to assess whether in all material respects the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Bank's performance as represented by the statements of financial performance, financial position and distribution.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Bank.

#### **Independence**

In conducting the audit, I have followed the independence requirements of the ANAO, which incorporate Australian professional ethical pronouncements.

#### **Audit Opinion**

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and applicable Accounting Standards; and
- (ii) give a true and fair view, of the matters required by applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Reserve Bank of Australia and its consolidated entity as at 30 June 2004, and their financial performance for the year then ended.



P. Barrett  
Auditor-General

Sydney  
13 August 2004